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MNI Russia Business Report March 2014

Insight and data for better decisions

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Insight and data for better decisions

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Our monthly reports explore attitudes, perspectives and confidence across different countries and regions. They deliver in-depth analysis, highlight changing patterns and how these can affect potential developments in business and consumer activities.

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MNI Russia Business Report - March 2014

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Counting the Cost...

Russia's growth in recent years has been driven by consumption at the expense of investment. It has relied on its vast reserves of gas and other commodities for years, while its industrial base has been left to wither.

I've written previously that Russia needs to change its growth model. Russia's growth in recent years has been driven by consumption at the expense of investment. It has relied on its vast reserves of gas and other commodities for years, while its industrial base has been left to wither.

With growth of just 1.3% in 2013 and productivity at weak levels, even the government finally recognised that the current model wasn't working.

In recent years, Russia has tried to present itself as an investable country and a place to do business. Holding the Sochi Olympics this year and the World Cup in 2018 would show the world that Russia is open for business and help to attract the investment it badly needs.

Whatever the rights and wrongs of Russia's lightning annexation of Crimea, it has wiped out any hopes of attracting foreign investment and potentially set back Russia's economy years. Our survey evidence this month showed sentiment among Russia's largest companies fell sharply in March. Barring a resolution in the situation, it is difficult to see anything but a further worsening in April as well.

And having previously expected growth to maybe increase a little this year from 2013's paltry gain, this is now looking unlikely, with the possibility that the Russian economy could at some point slip into recession. Should actions against Russia from the US

and EU escalate further to include wider financial and trade sanctions, then it will cause serious harm to the economy especially in the short-term.

And if the EU is determined to seek alternative sources of energy and wean itself off of its dependence on Russia's vast gas and oil supplies, then Russia's long-term growth potential could be even lower.

Philip Uglow
Chief Economist
MNI Indicators



Executive Summary

Russian business sentiment declined in March to the lowest in three months and was down sharply from the same month a year earlier, amid growing concerns about the economic impact of Russia's military intervention in Crimea.

Russian business sentiment declined in March to the lowest in three months and was down sharply from the same month a year earlier, amid growing concerns about the economic impact of Russia's military intervention in Crimea.

The MNI Russia Business Indicator fell to 52.5 in March from 60.0 in February, a decline of 12.5% on the month and well below the 59.3 outturn seen in March 2013. In spite of the latest fall, optimism ahead of the Sochi Olympics as well as seasonal factors helped pushed sentiment up in the first quarter to 56.8 from 51.1 in the final quarter of 2013.

As the proportion of companies that thought business conditions would worsen in the next three months increased, the Expectations Indicator fell to 53.3 in March from 55.3 in the previous month.

Production declined significantly in March to the lowest level since December. The fall in the Production Indicator to 52.5, was sharply down from 59.3 in February and well below the 61.1 outturn seen in March last year.

The New Orders Indicator also declined in March, following two consecutive monthly increases, leaving orders well below the same period last year. The Indicator fell to 57.5 in March from 62.5 in February.

Export Orders declined markedly on the month in the wake of the military action in Crimea. The Export Orders Indicator fell by 15.6% on the month to 48.3 compared with to 57.2 in February.

Order Backlogs also slipped back into contraction in March, having remained above 50 for the previous two months.

The Employment Indicator remained stable at 50 in March as the majority of the companies reported that the current number of employees they had was just right.

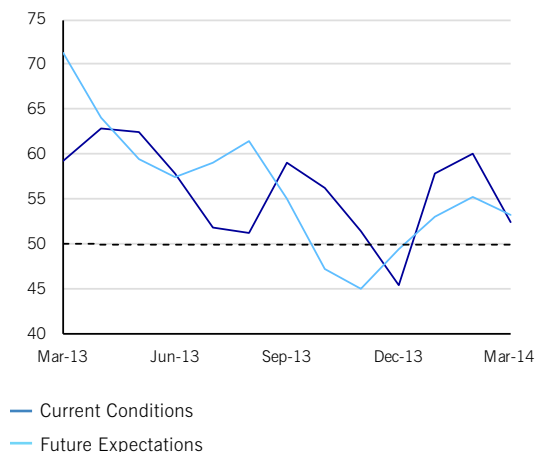
More companies expected prices charged to increase in the coming months as the Future Expectations Indicator increased by 5.3% to 51.3 in March.

After gaining for three consecutive months, the indicator measuring the Financial Position of companies declined in March to the lowest since December 2013, led by a worsening in services and manufacturing companies.

The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting businesses, declined from February's record high of 61.0 to 53.7 in March, the first fall in seven months.

Following three months of tightening, companies reported some easing in their credit availability in March with the Availability of Credit Indicator increasing to 53.0 from 51.9 in February.

MNI Russia Business Indicator



Overview

	Jan-14	Feb-14	Mar-14	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	57.9	60.0	52.5	-	Dec-13	56.8	-7.5	-12.5%
Future Expectations	53.0	55.3	53.3	-	Jan-14	53.9	-2.0	-3.6%
Production								
Current Conditions	58.2	59.3	52.5	-	Dec-13	56.7	-6.8	-11.5%
Future Expectations	50.5	52.0	50.8	-	Jan-14	51.1	-1.2	-2.3%
New Orders								
Current Conditions	57.6	62.5	57.5	-	Dec-13	59.2	-5.0	-8.0%
Future Expectations	50.3	51.0	51.8	Sep-13	-	51.0	0.8	1.6%
Export Orders								
Current Conditions	50.8	57.2	48.3	-	Aug-13	52.1	-8.9	-15.6%
Future Expectations	46.3	47.1	43.0	-	Dec-13	45.5	-4.1	-8.7%
Productive Capacity								
Current Conditions	50.3	50.3	50.3	Feb-14	-	50.3	0.0	0.0%
Future Expectations	49.7	49.7	49.7	Feb-14	-	49.7	0.0	0.0%
Order Backlogs								
Current Conditions	51.4	52.0	47.4	-	Aug-13	50.3	-4.6	-8.8%
Future Expectations	42.7	43.3	43.0	-	Jan-14	43.0	-0.3	-0.7%
Employment								
Current Conditions	48.3	50.0	50.0	Feb-14	-	49.4	0.0	0.0%
Future Expectations	49.7	49.5	50.5	Aug-13	-	49.9	1.0	2.0%
Inventories								
Current Conditions	38.2	44.4	40.4	-	Jan-14	41.0	-4.0	-9.0%
Future Expectations	43.8	43.8	40.2	-	Mar-13	42.6	-3.6	-8.2%
Input Prices								
Current Conditions	54.5	51.3	52.1	Jan-14	-	52.6	0.8	1.6%
Future Expectations	50.0	50.0	52.1	Sep-13	-	50.7	2.1	4.2%
Prices Received								
Current Conditions	57.7	53.8	53.1	-	Dec-13	54.9	-0.7	-1.3%
Future Expectations	49.4	48.7	51.3	Sep-13	-	49.8	2.6	5.3%
Financial Position								
Current Conditions	62.6	63.8	60.1	-	Dec-13	62.2	-3.7	-5.8%
Future Expectations	56.9	58.4	55.6	-	Jun-13	57.0	-2.8	-4.8%
Interest Rates Paid								
Current Conditions	52.6	54.3	50.0	-	series low	52.3	-4.3	-7.9%
Future Expectations	50.0	50.0	49.4	-	series low	49.8	-0.6	-1.2%
Effect of Rouble Exchange Rate								
Current Conditions	56.9	61.0	53.7	-	Oct-13	57.2	-7.3	-12.0%
Future Expectations	50.0	50.0	50.0	Feb-14	-	50.0	0.0	0.0%
Supplier Delivery Times								
Current Conditions	51.7	50.5	50.0	-	Dec-13	50.7	-0.5	-1.0%
Future Expectations	49.7	49.7	49.7	Feb-14	-	49.7	0.0	0.0%
Availability of Credit								
Current Conditions	55.0	51.9	53.0	Jan-14	-	53.3	1.1	2.1%
Future Expectations	50.9	50.9	50.0	-	series low	50.6	-0.9	-1.8%

Russian business sentiment declined in March to the lowest in three months.

Business confidence in the service sector fell the most while construction companies' sentiment increased.



Economic Landscape

Russia's annexation of Crimea has thrown the country into economic turmoil. The stock market has plunged and the rouble has come under intense pressure, forcing the central bank of Russia to raise its key policy rate from 5.5% to 7%.

Russia's annexation of Crimea has thrown the country into economic turmoil. The stock market has plunged and the rouble has come under increased pressure, forcing the central bank of Russia to raise its key policy rate from 5.5% to 7%. Forecasters are now rapidly revising down forecasts of growth for 2014, with some highlighting the possibility that Russia could slip into recession. Credit rating agencies have downgraded Russia's outlook to negative over the impact of sanctions from the United States and the European Union.

Economic data has been mixed with manufacturing output posting the highest growth in three months. Trade data appeared positive by showing the largest trade surplus for two years, although this was mainly due to a slowdown in imports, a possible sign of lower consumer demand in light of the weakening of the rouble.

Lowest economic growth since 2009

According to the first estimate from the Federal Service of State Statistics, Russian economic growth slowed to just 1.3% in 2013 from 3.4% in 2012, the lowest since 2009. Growth remained reliant on consumer spending although this failed to make up for sagging investment and a drop in global demand for oil and natural gas.

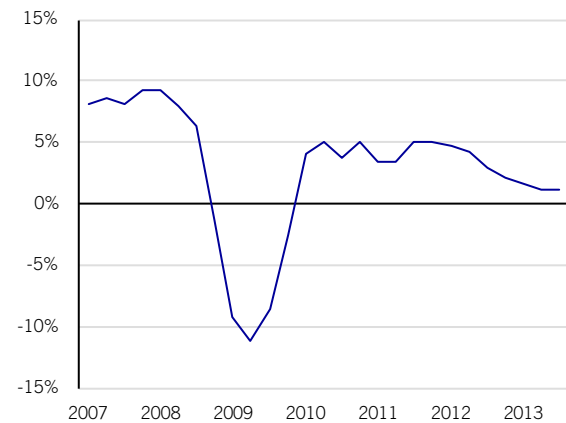
Private consumption expenditure remained relatively firm at 4.7% in 2013, but considerably down from the 7.9% rate seen in 2012. Government consumption declined 0.1%, following growth of 4.2% in 2012, while investment growth shrank sharply to 0.3% in 2012 from 6.4% a year earlier.

On the positive side, exports rose 3.8% in 2013, recovering from growth of just 1.4% in 2012. Imports of goods and services were less of a drag on the economy as they increased 5.9%, lower than the 8.8% reported in 2012.

According to the economy minister Alexei Ulyukayev, Russia's 2014 economic growth is likely to be close to 2013's level if economic trends seen early this year

remain intact. Growth forecasts will be revised in April from the previously published expectation of 2.5% this year. In February, Russia's gross domestic product grew by just 0.3% on the year, up from 0.1% growth rate in January. Hence, the Economy Ministry anticipates GDP growth of around zero for the first quarter as a whole.

Economic Growth



— GDP Growth y/y %

Source: Federal State Statistics Service of Russia

Industrial production expands in February

Industrial production increased 2.1% on the year in February, the highest growth in three months following a decline of 0.2% in January. The latest increase was driven by manufacturing output which grew by 3.4% in February after remaining flat in January.

In spite of the cold weather, utilities output continued to decline although by a smaller 0.3% on the year compared with 3.9% in the previous month. Mining and quarrying output rose by 0.8% compared with a growth of 0.9% in February.

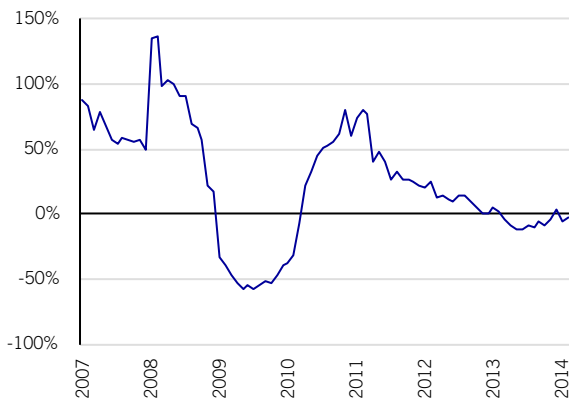
Car sales continue to decline

In February, 206,476 cars were sold, 2% down from the same month a year earlier, according to the Association of European Businesses (AEB). Russia is the second largest market for cars in Europe and last year saw the first annual fall in sales in four years.

The AEB remains cautious about the outlook and have forecasted sales of 2.73 million in 2014. The government offered cheap credit on cars to propel the car industry in the second half of 2013, barring which car sales would have been even worse. It is possible the scheme could be launched again should sales disappoint in 2014.

Russia plans to support its struggling auto industry with subsidies of up to 271 billion roubles (\$8 billion) in the three years to 2016 for research and development, to support jobs and to compensate for some costs related to meeting tighter exhaust emission standards.

Car Sales



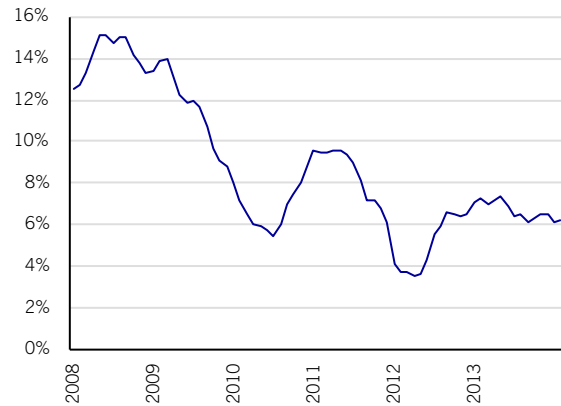
— Car and Light Commercial Vehicles y/y%
Source: Federal State Statistics Service of Russia

According to the deputy industry minister, Russian car sales may fall between 2.8-6.5% this year due to a weaker rouble and falling oil prices.

Higher inflation in February

Consumer price inflation rose slightly to 6.2% in February from 6.1% in January. Food price inflation accelerated to 6.9% from 6.5% in the previous month, with annual growth in fresh fruit and vegetable prices rising by 10.1% from 7.7%.

Inflation



— CPI Growth y/y %
Source: Federal State Statistics Service of Russia

The central bank is targeting an inflation rate of 5% this year, after overshooting its 5-6% range in 2013.

The central bank has said that inflationary risks remain high and a slowdown in inflation is possible only in the second half of 2014.

Monetary policy: key rate increased

The central bank raised its key rate – the one-week repo rate at which it lends money to financial institutions – to 7% from 5.5% at a surprise meeting on March 3 aimed at limiting inflationary risks that stemmed from the rouble weakening to an all-time low.

The central bank left all interest rates unchanged at its scheduled meeting on March 14 and said it will maintain a tight monetary policy stance well into the foreseeable future. While the central bank framed the surprise tightening in policy in early March as a move to offset the inflationary impact of the weaker rouble, a key aim was to try and avert a damaging run on the currency.

Deputy Economy Minister Andrey Klepach said a temporary increase in the key rate would not hurt the economy, but that rouble depreciation would increase inflation.

The bank has made it clear that its top priority is to limit the inflationary implication of exchange-rate dynamics and to support financial stability. Low inflation would make borrowing more affordable and lead to a road of longer-term investment, which in turn would support economic growth.

Depreciation in the rouble

So far this year, the rouble has been one of the worst performing emerging market currencies. It fell to an all time low of 36.6 versus the US Dollar on March 14, following Russia's actions in Ukraine and fears of an escalation in the situation.

The central bank spent \$10 billion of its reserves on a single day on March 3 to prop up the rouble's sudden fall and has indicated that it would make major interventions due to the increased volatility. The bank has spent \$23 billion in currency markets in the first two weeks of March alone, although there is no imminent cash danger as the bank has \$440 billion in foreign exchange reserves.

Even before tensions intensified in Ukraine, the rouble had been weakening. The Russian authorities denied engaging in a deliberate policy to devalue the currency in order to raise export revenue or to provide a windfall gain for the state budget. Currency turmoil has been seen throughout most emerging market economies, although the move in Russia to a fully free floating

currency has meant reduced currency intervention from the central bank which has put pressure on the rouble.

The Economy Ministry has forecast that the net capital outflow during the first quarter will be \$65-70 billion. That compares with an outflow of \$62.7 billion during the whole of 2013. The Economy Minister Alexei Ulyukayev ascertains that worsening political relations is a negative factor for economic growth and correspondingly influences the capital outflow.

Trade surplus rises to the highest in 23 months

Russia's trade surplus widened to \$18.86 billion in January, up from \$15.8 billion a month earlier and \$17.21 billion in the same month last year, as imports dropped to the lowest in two years due to the sharp depreciation of the rouble.

Exports increased 1.5% on the year to \$39.5 billion. Shipments to countries outside the Commonwealth of Independent States (CIS) increased by 3.2%, while those to the CIS countries shrank for the third straight month by 7.7% on the year.

Imports fell to \$20.6 billion, down by 4.8% on the year as the depreciation in rouble makes imports more expensive.



Indicators

The MNI Russia Business Indicator fell to 52.5 in March from 60.0 in February, well below the 59.3 outturn seen in March 2013. 11 out of the 15 current conditions indicators declined between February and March, while two remained unchanged.

MNI Russia Business Indicator Declines Sharply



Russian business sentiment declined in March to the lowest in three months and was down sharply from the same month a year earlier, amid growing concerns about the economic impact of Russia's military intervention in Crimea.

The MNI Russia Business Indicator fell to 52.5 in March from 60.0 in February, a decline of 12.5% on the month and well below the 59.3 outturn seen in March 2013. In spite of the latest fall, optimism ahead of the Sochi Olympics as well as seasonal factors helped pushed sentiment up in the first quarter to 56.8 from 51.1 in the final quarter of 2013.

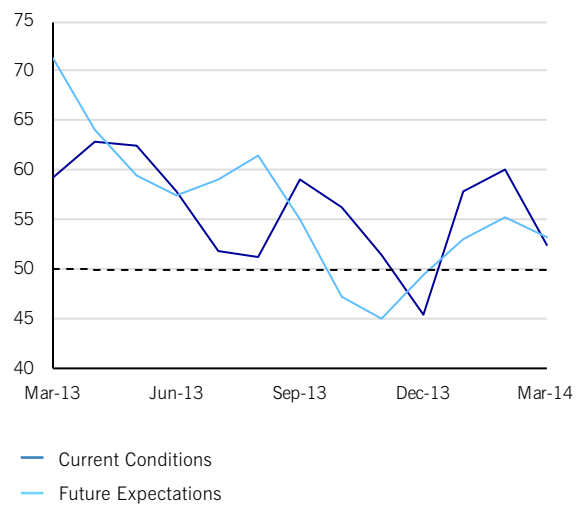
Any potential benefits of Sochi have seemingly been wiped out by growing concerns over the imposition of economic sanctions against Russia.

In total, 11 out of the 15 current conditions indicators declined between February and March, while two remained unchanged.

Business confidence was lowest among manufacturing companies with sentiment falling below the 50 breakeven mark for the first time in three months. Confidence in the service sector declined the most in March, while construction companies' posted an increase.

Many Russian businesses, having previously seen the depreciation in the rouble as a positive, were concerned that the sharp depreciation threatens the stability of the economy.

MNI Russia Business Indicator



There was an increase in the proportion of companies that thought business conditions will worsen in the next three months. The Expectations Indicator fell to 53.3 in March from 55.3 in the previous month.

Expectations among manufacturing companies declined significantly, pushing sentiment below 50 for the first time in four months. Construction companies were increasingly optimistic about overall business conditions in the coming months while the Expectations Indicator for services remained stable.

In March, eight out of the 15 future expectations indicators fell while three remained unchanged from February.

MNI Russia Business Indicator

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	59.3	56.3	51.5	45.5	57.9	60.0	52.5
Future Expectations	71.3	47.2	45.0	49.5	53.0	55.3	53.3

Production Declines Markedly



Current conditions for Production declined significantly in March to the lowest level since December. The fall in the Production Indicator to 52.5, was sharply down from 59.3 in February and well below the 61.1 outturn seen in March last year.

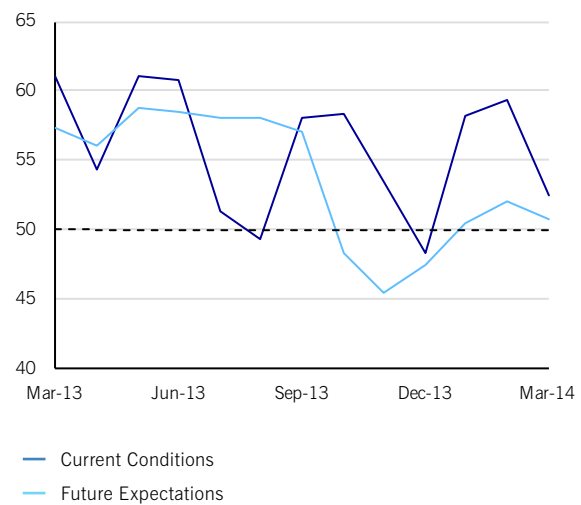
The sharp rise seen in January seems like a temporary boost from seasonal factors and the Sochi Olympics. Even though the Production Indicator is still above the 50 mark that separates expansion from contraction, it is below the series average of 55.8.

The decline was led by service companies as the proportion of those who said production was higher declined significantly. Manufacturing companies' Production was stable while construction companies saw an increase as compared with February.

Companies' optimism for the next three months also fell after improving for three straight months. The Future Expectations Indicator declined to 50.8 from 52.0 in the previous month. Expectations fell into contraction in October and have averaged 49.1 since then.

Expectations about future Production levels were highest among construction sector companies while the Future Expectations Indicator for manufacturing and service sector companies fell into contraction.

Production



Production

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	61.1	58.3	53.5	48.3	58.2	59.3	52.5
Future Expectations	57.4	48.3	45.5	47.5	50.5	52.0	50.8

New Orders

Current Conditions Decline



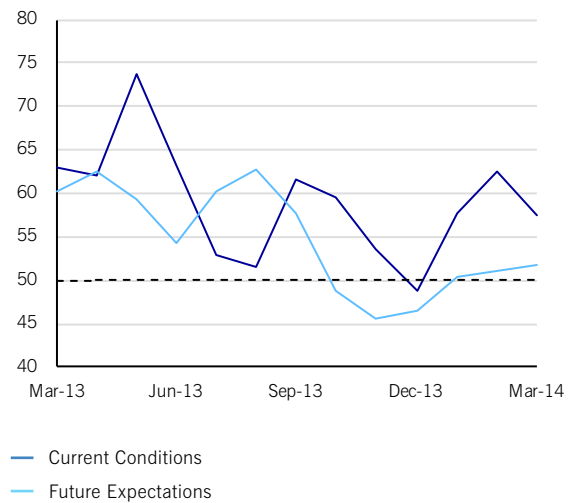
The New Orders Indicator declined in March following two consecutive monthly increases, leaving orders well below the same period last year.

The New Orders Indicator fell significantly to 57.5 in March from 62.5 in February. The fall in orders was mainly due to a sharp decline in the proportion of service sector companies that said they had higher New Orders on the month. Construction companies saw a rise in the New Orders Indicator while it remained broadly stable for manufacturing firms.

In spite of the growing threat of sanctions when the survey was taken, expectations of companies for New Orders in three months' time improved slightly for the fourth month in a row. The New Orders Indicator rose from 51.0 in February to 51.8 in March, the highest since September.

Construction companies were the most optimistic about future New Orders, with their indicator moving into expansion for the first time in eight months. Manufacturing and service sector companies' expectations declined, with the latter falling into contraction.

New Orders



New Orders

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	63.0	59.5	53.5	48.8	57.6	62.5	57.5
Future Expectations	60.2	48.8	45.5	46.5	50.3	51.0	51.8

Export Orders

Lowest Since August



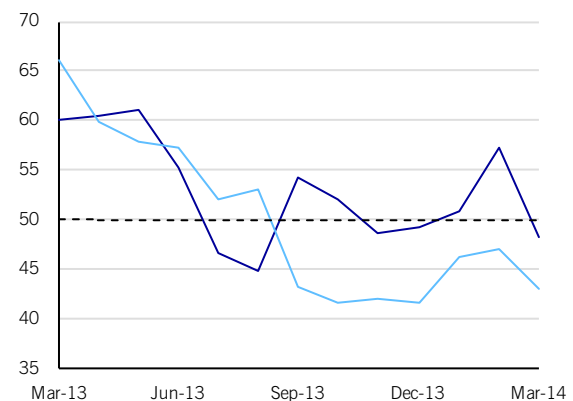
The Export Orders Indicator declined markedly on the month in the wake of the military action in Crimea.

The Exports Orders Indicator fell by 15.6% on the month to 48.3 compared with 57.2 in February, falling back into contraction territory for the first time since December.

Both manufacturing and service sector companies reported a sharp decline in Export Orders. The indicator for the latter declined below the 50 mark, while for the former it remained in contraction. For construction sector companies, Export Orders were unchanged at the breakeven mark.

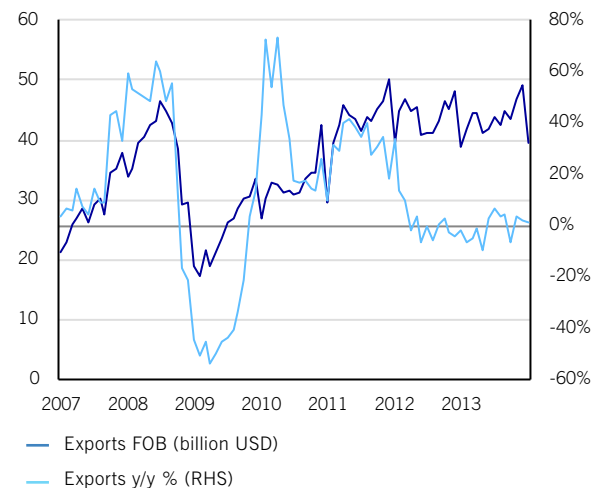
Future Expectations for Export Orders also deteriorated and remained in contraction for the seventh consecutive month. The indicator fell to 43.0 compared with 47.1 in the previous month, following two consecutive monthly rises, possibly due to the uncertainty regarding sanctions on Russian businesses by the US and EU.

Export Orders



— Current Conditions
— Future Expectations

Trend in Exports



Source: Federal State Statistics Service of Russia

Export Orders

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	60.0	52.1	48.7	49.2	50.8	57.2	48.3
Future Expectations	66.0	41.6	42.1	41.7	46.3	47.1	43.0

Productive Capacity Stable

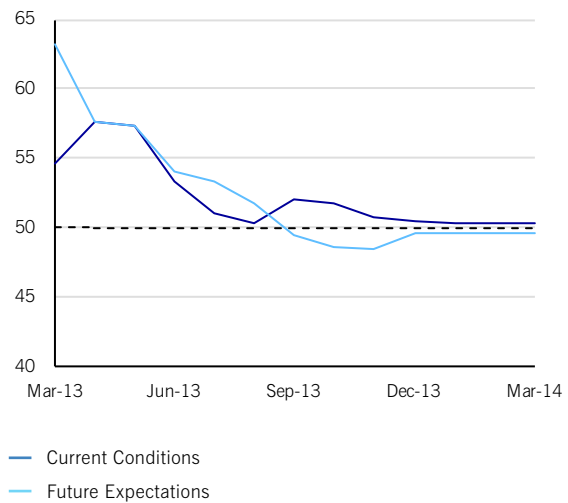


The Productive Capacity Indicator remained unchanged at 50.3 for the third consecutive month in March.

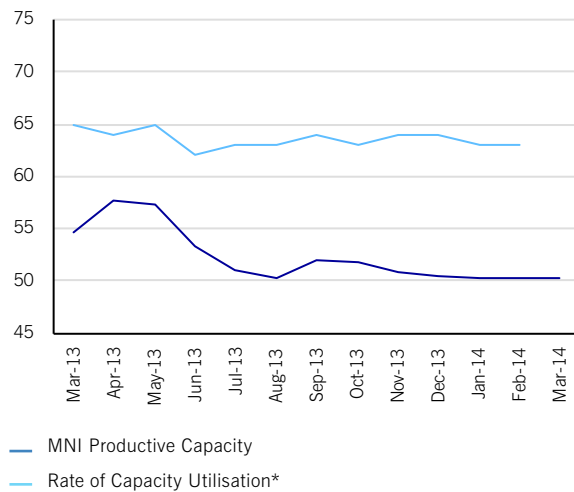
Productive Capacity has been broadly stable since June hovering close to 51, although capacity is down from 54.7 in March 2013.

The Expectations Indicator also remained flat at 49.7 for the fourth consecutive month in March. The indicator has been trending downwards since the series started in March, and has been in contraction since August.

Productive Capacity



Productive Capacity and Rate of Capacity Utilisation



*Source: Federal State Statistics Service of Russia

Productive Capacity

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	54.7	51.8	50.8	50.5	50.3	50.3	50.3
Future Expectations	63.2	48.7	48.5	49.7	49.7	49.7	49.7

Order Backlogs

Below 50



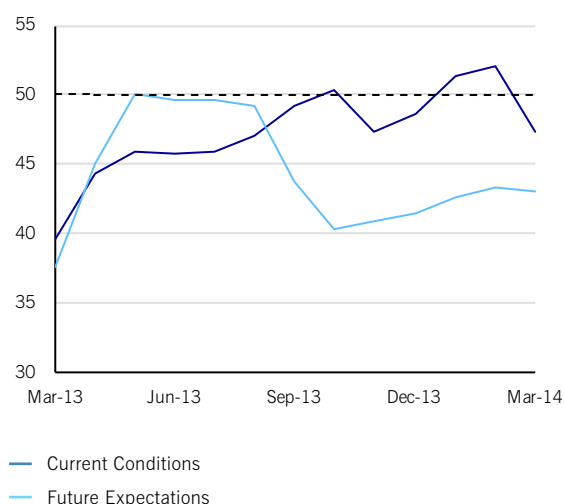
Order Backlogs slipped back into contraction in March, having remained above 50 for the previous two months.

The Order Backlogs Indicator decreased by 8.8% to 47.4 in March from 52.0 in February, the lowest since August 2013.

The decline was led by construction and services companies, where the Order Backlogs Indicator fell below the 50 expansion/contraction mark. Backlogs were unchanged for manufacturing companies and remained in contraction. The slowdown in the economy has resulted in a greater degree of excess capacity that means companies are better placed to meet any new demand swiftly.

Future Expectations for backlogs remained firmly in contraction and broadly stable at 43.0 in March compared with 43.3 in the previous month. Except for May last year, when the Future Expectations Indicator was exactly 50, expectations for Order Backlogs have always been in contraction, although have been gradually rising since September.

Order Backlogs



Order Backlogs

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	39.6	50.3	47.4	48.7	51.4	52.0	47.4
Future Expectations	37.7	40.4	40.9	41.5	42.7	43.3	43.0

Employment Just Right



The Employment Indicator remained stable at 50 in March as the majority of the companies reported that the current number of employees they had was just right.

The Employment Indicator for manufacturing companies increased to 50 having been in contraction for the previous four months. Construction companies' employment conditions remained in contraction, while the indicator for service sector companies fell on the month but remained above the 50 level.

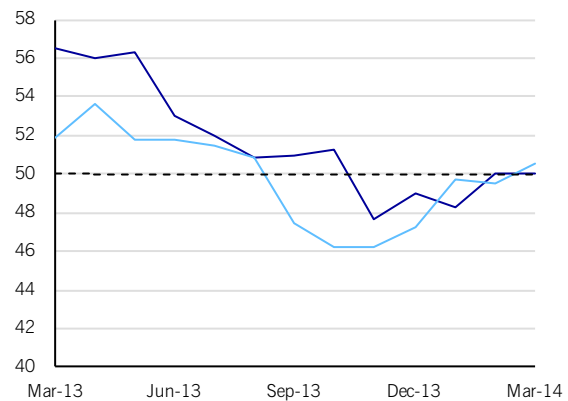
Companies are asked whether the number of employees they have is not enough, just right or too many, compared with the previous month.

Russia's two largest banks Sberbank and VTB have announced significant cuts in their headcount and salaries of staff in order to improve business efficiency and cut costs.

However, in March, companies in our panel were more optimistic about the coming three months as the Expectations Indicator rose to 50.5 from 49.5 in February, the highest since August. Expectations, though, were 2.7% below the same period a year earlier.

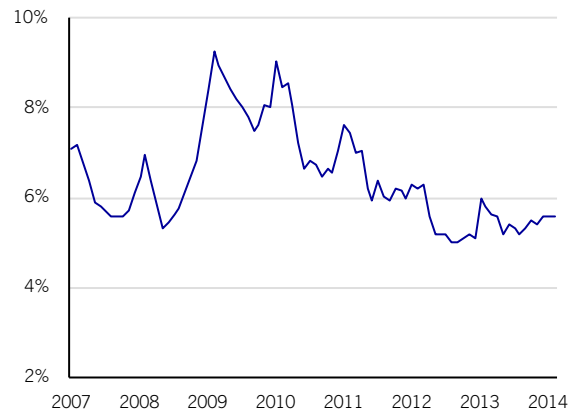
Latest official data showed that the unemployment rate remained steady at 5.6% in February, unchanged from the previous two months. Between January and February, the number of unemployed people remained virtually unchanged at 4.2 million.

Employment



— Current Conditions
— Future Expectations

Steady Unemployment Rate



— Unemployment Rate

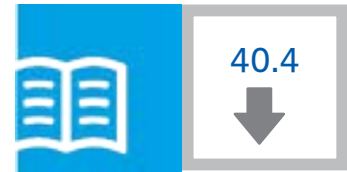
Source: Federal State Statistics Service of Russia

Employment

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	56.5	51.3	47.7	49.0	48.3	50.0	50.0
Future Expectations	51.9	46.2	46.2	47.2	49.7	49.5	50.5

Inventories

Decline Sharply

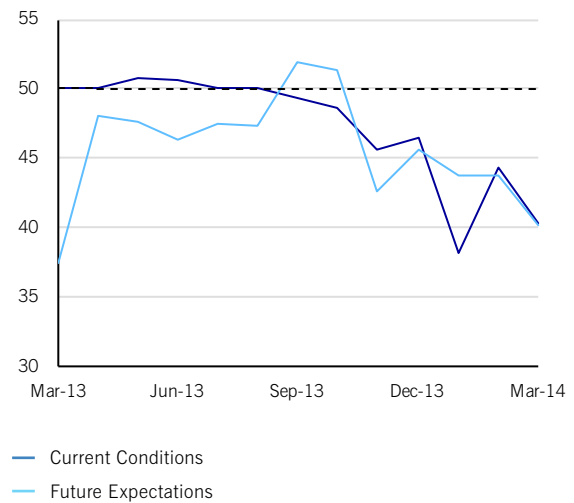


The Inventories Indicator declined significantly in March to 40.4 after rising in the previous month to 44.4, leaving inventories nearly 20% below the level seen in March 2013.

The decline in inventories was led by construction companies, where a sharp fall pushed the indicator below the breakeven 50 mark. The indicator also declined for manufacturing companies, remaining below the 50 breakeven level.

Companies' expectations for inventories in three months' time declined to the lowest since March 2013. The Future Expectations Indicator fell to 40.2 in March, 8.2% below February's 43.8 level. Companies began destocking in September last year with their expectations for the future turning negative two months later in November and have remained in contraction since then.

Inventories



Inventories

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	50.0	48.7	45.7	46.5	38.2	44.4	40.4
Future Expectations	37.5	51.3	42.6	45.7	43.8	43.8	40.2

Input Prices

Slight Rise



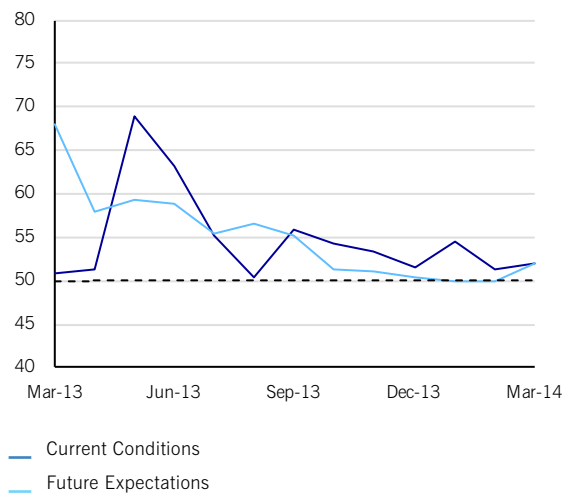
The Input Prices Indicator rose to 52.1 in March from 51.3 in February, although remained below the series average of 54.8.

The three month trend in Input Prices has declined significantly since the summer of 2013 and has been broadly stable in recent months.

The rise in March was led by more manufacturing companies reporting higher input prices, while service sector companies reported a decline. The Input Prices Indicator for construction companies remained broadly stable at the 50 mark for the fifth month in a row.

Companies expected input prices in the next three months to rise, with the indicator increasing to 52.1 from 50.0 in the previous two months. This was the first rise since August and was mainly led by construction companies.

Input Prices



Input Prices

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	50.9	54.2	53.4	51.5	54.5	51.3	52.1
Future Expectations	67.9	51.3	51.0	50.5	50.0	50.0	52.1

Prices Received

Future Expectations Expand



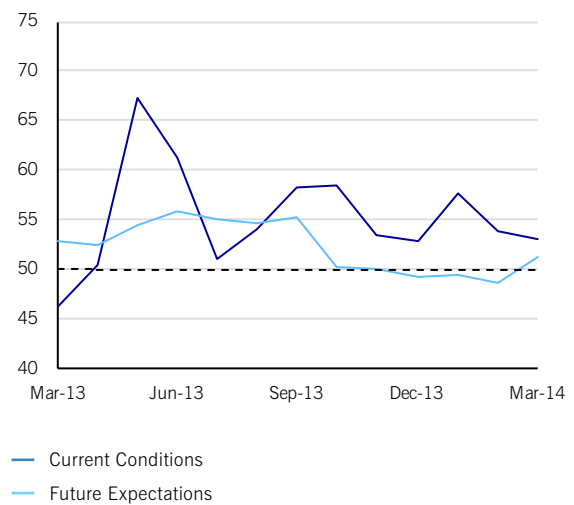
The Prices Received Indicator, which measures prices that companies charge for their goods and services, declined slightly to 53.1 in March from 53.8 in February.

The latest decline was driven by a rise in the proportion of service companies who charged lower prices. The Prices Received Indicator for construction companies remained stable at the breakeven level for the fifth month in a row while it increased among manufacturing companies.

After remaining in contraction for three months, the Future Expectations indicator moved above the breakeven level in March, a possible signal that prices may climb more. More companies expected the prices they charge to rise in the next three months, with the Future Expectations Indicator increasing to 51.3 from February's series low of 48.7.

Official data showed that consumer price inflation rose slightly to 6.2% in February from 6.1% in January. The central bank is targeting an inflation rate of 5% this year, after overshooting its 5-6% range in 2013. However, the recent fall in the rouble is likely to have an adverse impact on inflation going forward.

Prices Received



Prices Received

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	46.3	58.5	53.5	52.8	57.7	53.8	53.1
Future Expectations	52.8	50.3	50.0	49.2	49.4	48.7	51.3

Financial Position

Lowest Since December



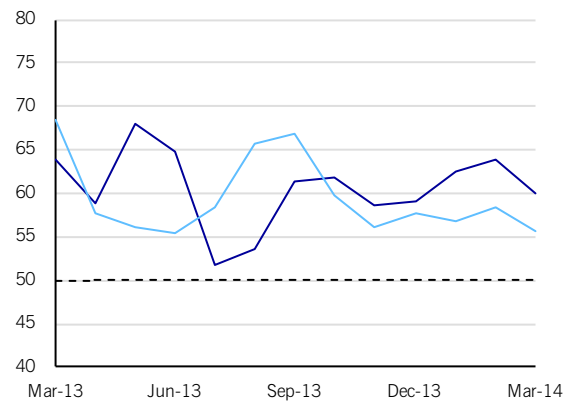
After gaining for three consecutive months, the indicator measuring the Financial Position of companies declined in March to the lowest since December 2013, led by a worsening in services and manufacturing companies.

The Financial Position Indicator declined by 5.8% to 60.1 from 63.8 in February. In spite of slowdown, the financial position of companies in the period from January to March was at 62.2, 3.8% above 59.9 seen in the previous quarter.

The Russian stock market has lost more than 10% this month, as the situation in Ukraine has intensified, wiping out billions in market capitalisation.

Companies' expectations about their Financial Position in three months' time also fell in March, very close to the series low seen in June last year. The Future Expectations Indicator declined to 55.6 in March from 58.4 in the previous month mainly led by manufacturing and service companies. Expectations for construction companies were more optimistic.

Financial Position



- Current Conditions
- Future Expectations

Financial Position

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	63.9	61.9	58.6	59.1	62.6	63.8	60.1
Future Expectations	68.5	59.7	56.2	57.8	56.9	58.4	55.6

Interest Rates Paid At Breakeven Level



The indicator for Interest Rates Paid declined sharply in March following three months of increases to 50.0 from 54.3 in February.

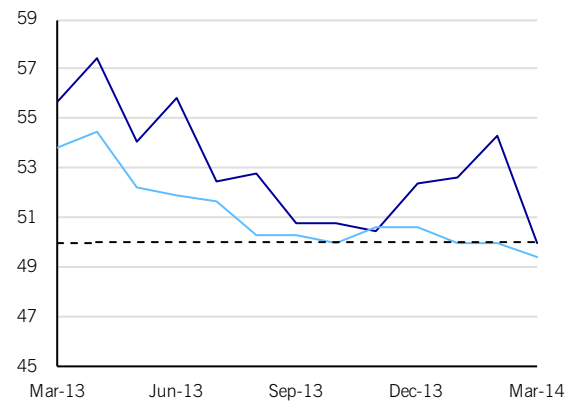
The central bank raised its key rate – the one-week repo rate at which it lends money to financial institutions – to 7% from 5.5% at a surprise meeting on March 3 in an effort to stabilise its currency. Rates were left the same level at their regular meeting on March 14 as expected. The key message of the meeting was that the recent policy tightening will not be reversed in the coming months as inflation and financial stability risks remain high. The move was clearly aimed at trying to stem the decline of the currency.

The yield on the Russian 10-year government bond stood at 8.33% on March 21, down from 8.39% on February 21, while the three month interbank rate increased significantly to 8.22% from 6.91% between February and March.

The indicators for all the three sectors were bang in line with the breakeven 50 level and much of the decline on the month was led by service companies.

Companies' expectations for interest rates paid in the next three months have trended downwards since the start of the survey and in March they expected them to contract for the first time. The Future Expectations Indicator declined to 49.4 after remaining unchanged in February at 50.0.

Interest Rates Paid



— Current Conditions
— Future Expectations

Interest Rates Paid

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	55.7	50.8	50.5	52.4	52.6	54.3	50.0
Future Expectations	53.8	50.0	50.6	50.6	50.0	50.0	49.4

Effect of Rouble Exchange Rate

Fewer Companies say Exchange Rate is Helping



The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting businesses, declined from February’s record high of 61.0 to 53.7 in March, the first fall in seven months.

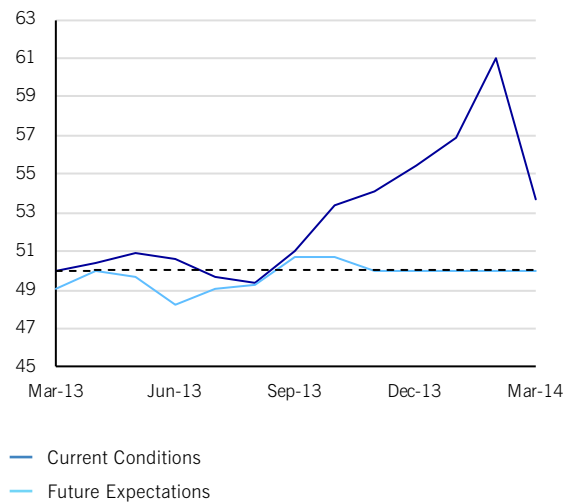
Many Russian businesses, having previously seen the depreciation in the rouble as a positive, are concerned that the sharp depreciation threatens the stability of the economy.

The rouble has fallen by over 7% against the US dollar since the start of the year and over 3% in just the last month. The rouble started depreciating along with other emerging markets when the Fed announced its plans for tapering last year. However, the sharp decline in the strength of the currency over the past month is due to Russia’s intervention in Ukraine and the speed of the descent has raised fears of economic instability among companies.

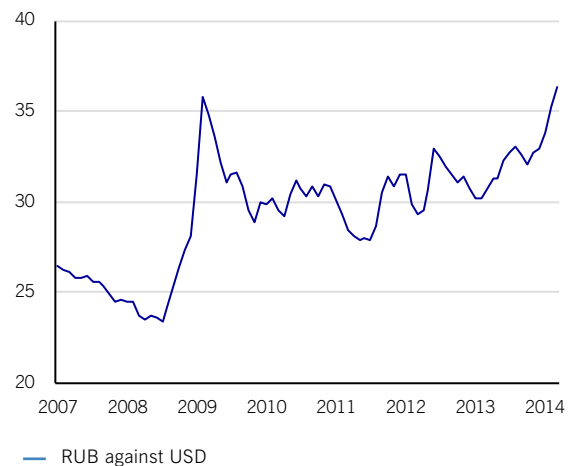
There was a rise in the proportion of manufacturing companies who reported the exchange rate was hurting business with the indicator falling into contraction. Construction and service sector companies also saw a fall in the indicator but it remained in expansion.

Expectations for three months’ time remained at 50.0 for the fifth consecutive month, having stood slightly above the breakeven level in September and October. The Expectations Indicator has been broadly stable around the breakeven level since the series started in March.

Effect of Rouble Exchange Rate



Depreciation in the Rouble



Source: The Central Bank of the Russian Federation

Effect of Rouble Exchange Rate

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	50.0	53.4	54.1	55.4	56.9	61.0	53.7
Future Expectations	49.1	50.7	50.0	50.0	50.0	50.0	50.0

Supplier Delivery Times Broadly Stable

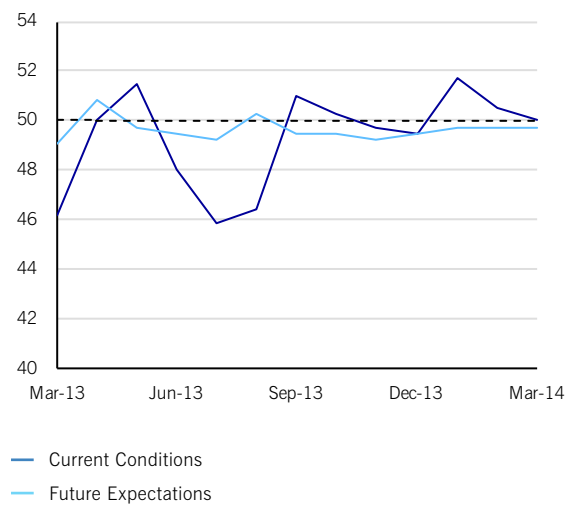


The time taken to deliver supplies to companies has been broadly stable in the seven months to March, shortening slightly to 50.0 in March compared with 50.5 in the previous month.

The indicator fell below the 50 level for manufacturing companies while it remained around the breakeven level for construction and services companies.

Expectations for three months' time remained unchanged at 49.7 in March, the same level it has stayed at in the previous two months. Future expectations have remained broadly stable since March last year with the series averaging 49.6, and only rising above the breakeven level of 50 twice since then.

Supplier Delivery Times



Supplier Delivery Times

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	46.2	50.3	49.7	49.5	51.7	50.5	50.0
Future Expectations	49.1	49.5	49.2	49.5	49.7	49.7	49.7

Availability of Credit

Future Expectations Decline to Series Low



Following three months of tightening, companies reported some easing in their credit availability in March with the Availability of Credit Indicator increasing to 53.0 from 51.9 in February.

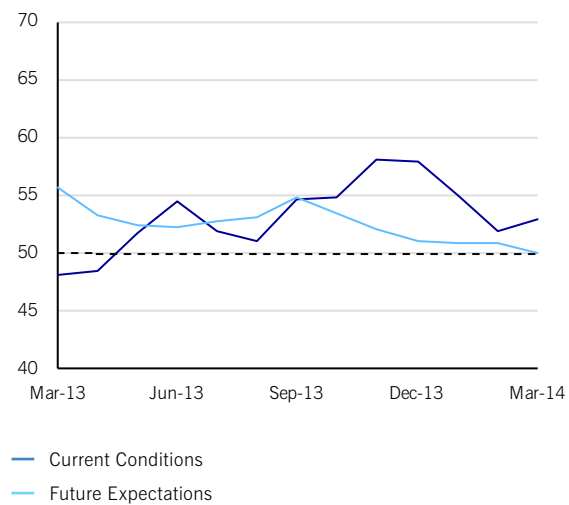
Credit availability had risen gradually until November 2013 and has trended downwards since then. In the first quarter of 2014, the indicator was 6.3% below the previous quarter. However, the rise seen in March put the indicator over 10% above the level seen in the same period a year earlier.

The improvement in credit availability was led by construction and service sector companies, of which the former reached the 50 mark after remaining in contraction for two months. Manufacturing companies saw a small fall in credit availability compared with the previous month.

Businesses expect credit availability in three months' time to fall to the lowest since March last year when the survey started. The Expectations Indicator has fallen in each month since September and after remaining flat in February at 50.9, it declined to the 50 mark in March. The indicator has averaged 52.5 over the past year.

International credit rating agencies have warned that Russia's debt rating could be cut to junk status following western sanctions. While so far sanctions have been limited to travel restrictions and asset freezes on individuals, wider financial sanctions could cut off Russia's credit lines with devastating effects on the country.

Availability of Credit



— Current Conditions
 — Future Expectations

Russia's central bank sought to assure that the blacklisting of Rossiya bank by US authorities does not have a serious bearing on the lender's financial stability and that the government could take necessary steps to support the lender and the interests of its depositors and creditors.

Availability of Credit

	Mar-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Current Conditions	48.1	54.9	58.0	57.9	55.0	51.9	53.0
Future Expectations	55.6	53.4	52.0	51.1	50.9	50.9	50.0



Data Tables

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Historical Summary

	2013										2014		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
MNI Russia Business Indicator													
Current Conditions	59.3	62.9	62.5	57.8	51.8	51.3	59.0	56.3	51.5	45.5	57.9	60.0	52.5
Future Expectations	71.3	64.1	59.5	57.5	59.0	61.5	55.0	47.2	45.0	49.5	53.0	55.3	53.3
Production													
Current Conditions	61.1	54.4	61.0	60.8	51.3	49.3	58.0	58.3	53.5	48.3	58.2	59.3	52.5
Future Expectations	57.4	56.0	58.8	58.5	58.0	58.0	57.0	48.3	45.5	47.5	50.5	52.0	50.8
New Orders													
Current Conditions	63.0	62.1	73.8	63.3	53.0	51.5	61.5	59.5	53.5	48.8	57.6	62.5	57.5
Future Expectations	60.2	62.5	59.3	54.3	60.3	62.8	57.8	48.8	45.5	46.5	50.3	51.0	51.8
Export Orders													
Current Conditions	60.0	60.5	61.1	55.3	46.6	44.9	54.3	52.1	48.7	49.2	50.8	57.2	48.3
Future Expectations	66.0	59.9	57.9	57.3	52.1	53.0	43.3	41.6	42.1	41.7	46.3	47.1	43.0
Productive Capacity													
Current Conditions	54.7	57.7	57.3	53.3	51.0	50.3	52.0	51.8	50.8	50.5	50.3	50.3	50.3
Future Expectations	63.2	57.7	57.3	54.0	53.3	51.8	49.5	48.7	48.5	49.7	49.7	49.7	49.7
Order Backlogs													
Current Conditions	39.6	44.3	45.9	45.8	45.9	47.1	49.2	50.3	47.4	48.7	51.4	52.0	47.4
Future Expectations	37.7	45.0	50.0	49.7	49.7	49.2	43.8	40.4	40.9	41.5	42.7	43.3	43.0
Employment													
Current Conditions	56.5	56.0	56.3	53.0	52.0	50.8	51.0	51.3	47.7	49.0	48.3	50.0	50.0
Future Expectations	51.9	53.6	51.8	51.8	51.5	50.8	47.5	46.2	46.2	47.2	49.7	49.5	50.5
Inventories													
Current Conditions	50.0	50.0	50.8	50.6	50.0	50.0	49.4	48.7	45.7	46.5	38.2	44.4	40.4
Future Expectations	37.5	48.1	47.7	46.3	47.5	47.4	51.9	51.3	42.6	45.7	43.8	43.8	40.2
Input Prices													
Current Conditions	50.9	51.3	68.8	63.1	55.2	50.5	55.8	54.2	53.4	51.5	54.5	51.3	52.1
Future Expectations	67.9	58.0	59.4	58.9	55.5	56.6	55.3	51.3	51.0	50.5	50.0	50.0	52.1
Prices Received													
Current Conditions	46.3	50.4	67.3	61.3	51.0	54.0	58.3	58.5	53.5	52.8	57.7	53.8	53.1
Future Expectations	52.8	52.4	54.5	55.8	55.1	54.6	55.3	50.3	50.0	49.2	49.4	48.7	51.3
Financial Position													
Current Conditions	63.9	58.9	68.0	64.9	51.8	53.6	61.4	61.9	58.6	59.1	62.6	63.8	60.1
Future Expectations	68.5	57.7	56.0	55.4	58.3	65.8	66.9	59.7	56.2	57.8	56.9	58.4	55.6
Interest Rates Paid													
Current Conditions	55.7	57.4	54.1	55.8	52.5	52.8	50.8	50.8	50.5	52.4	52.6	54.3	50.0
Future Expectations	53.8	54.5	52.2	51.9	51.7	50.3	50.3	50.0	50.6	50.6	50.0	50.0	49.4
Effect of Rouble Exchange Rate													
Current Conditions	50.0	50.4	50.9	50.6	49.7	49.4	51.0	53.4	54.1	55.4	56.9	61.0	53.7
Future Expectations	49.1	50.0	49.7	48.2	49.1	49.3	50.7	50.7	50.0	50.0	50.0	50.0	50.0
Supplier Delivery Time													
Current Conditions	46.2	50.0	51.5	48.0	45.9	46.4	51.0	50.3	49.7	49.5	51.7	50.5	50.0
Future Expectations	49.1	50.8	49.7	49.5	49.2	50.3	49.5	49.5	49.2	49.5	49.7	49.7	49.7
Availability of Credit													
Current Conditions	48.1	48.4	51.7	54.4	51.9	51.1	54.7	54.9	58.0	57.9	55.0	51.9	53.0
Future Expectations	55.6	53.3	52.5	52.2	52.7	53.1	54.9	53.4	52.0	51.1	50.9	50.9	50.0

Historical Records

	2013- Current			
	Minimum	Maximum	Median	Mean
MNI Russia Business Indicator				
Current Conditions	45.5	62.9	56.0	57.8
Future Expectations	45.0	71.3	56.2	55.3
Production				
Current Conditions	48.3	61.1	55.8	58.0
Future Expectations	45.5	58.8	53.7	56.0
New Orders				
Current Conditions	48.8	73.8	59.0	59.5
Future Expectations	45.5	62.8	54.7	54.3
Export Orders				
Current Conditions	44.9	61.1	53.0	52.1
Future Expectations	41.6	66.0	50.1	47.1
Productive Capacity				
Current Conditions	50.3	57.7	52.3	51.0
Future Expectations	48.5	63.2	52.5	49.7
Order Backlogs				
Current Conditions	39.6	52.0	47.3	47.4
Future Expectations	37.7	50.0	44.4	43.3
Employment				
Current Conditions	47.7	56.5	51.7	51.0
Future Expectations	46.2	53.6	49.9	50.5
Inventories				
Current Conditions	38.2	50.8	47.3	49.4
Future Expectations	37.5	51.9	45.7	46.3
Input Prices				
Current Conditions	50.5	68.8	54.8	53.4
Future Expectations	50.0	67.9	55.1	55.3
Prices Received				
Current Conditions	46.3	67.3	55.2	53.8
Future Expectations	48.7	55.8	52.3	52.4
Financial Position				
Current Conditions	51.8	68.0	60.7	61.4
Future Expectations	55.4	68.5	59.5	57.8
Interest Rates Paid				
Current Conditions	50.0	57.4	53.1	52.6
Future Expectations	49.4	54.5	51.2	50.6
Effect of Rouble Exchange Rate				
Current Conditions	49.4	61.0	52.8	51.0
Future Expectations	48.2	50.7	49.8	50.0
Supplier Delivery Time				
Current Conditions	45.9	51.7	49.3	50.0
Future Expectations	49.1	50.8	49.6	49.5
Availability of Credit				
Current Conditions	48.1	58.0	53.2	53.0
Future Expectations	50.0	55.6	52.5	52.5

Historical Records - Quarterly

	Q3 13	Q4 13	Q1 14	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator					
Current Conditions	54.0	51.1	56.8	5.7	11.2%
Future Expectations	58.5	47.2	53.9	6.7	14.2%
Production					
Current Conditions	52.9	53.4	56.7	3.3	6.2%
Future Expectations	57.7	47.1	51.1	4.0	8.5%
New Orders					
Current Conditions	55.3	53.9	59.2	5.3	9.8%
Future Expectations	60.3	46.9	51.0	4.1	8.7%
Export Orders					
Current Conditions	48.6	50.0	52.1	2.1	4.2%
Future Expectations	49.5	41.8	45.5	3.7	8.9%
Productive Capacity					
Current Conditions	51.1	51.0	50.3	-0.7	-1.4%
Future Expectations	51.5	49.0	49.7	0.7	1.4%
Order Backlogs					
Current Conditions	47.4	48.8	50.3	1.5	3.1%
Future Expectations	47.6	40.9	43.0	2.1	5.1%
Employment					
Current Conditions	51.3	49.3	49.4	0.1	0.2%
Future Expectations	49.9	46.5	49.9	3.4	7.3%
Inventories					
Current Conditions	49.8	47.0	41.0	-6.0	-12.8%
Future Expectations	48.9	46.5	42.6	-3.9	-8.4%
Input Prices					
Current Conditions	53.8	53.0	52.6	-0.4	-0.8%
Future Expectations	55.8	50.9	50.7	-0.2	-0.4%
Prices Received					
Current Conditions	54.4	54.9	54.9	-	0.0%
Future Expectations	55.0	49.8	49.8	-	0.0%
Financial Position					
Current Conditions	55.6	59.9	62.2	2.3	3.8%
Future Expectations	63.7	57.9	57.0	-0.9	-1.6%
Interest Rates Paid					
Current Conditions	52.0	51.2	52.3	1.1	2.1%
Future Expectations	50.8	50.4	49.8	-0.6	-1.2%
Effect of Rouble Exchange Rate					
Current Conditions	50.0	54.3	57.2	2.9	5.3%
Future Expectations	49.7	50.2	50.0	-0.2	-0.4%
Supplier Delivery Time					
Current Conditions	47.8	49.8	50.7	0.9	1.8%
Future Expectations	49.7	49.4	49.7	0.3	0.6%
Availability of Credit					
Current Conditions	52.6	56.9	53.3	-3.6	-6.3%
Future Expectations	53.6	52.2	50.6	-1.6	-3.1%

Methodology

MNI Russia Business Sentiment is a monthly poll of Russian business executives at companies listed on the Moscow Exchange. Companies are a mix of manufacturing, service, construction and agricultural firms.

Respondents are asked their opinion on whether a particular business activity has increased, decreased or remained the same compared with the previous month as well as their expectations for three months ahead, e.g. Is Production Higher/Same/Lower compared with a month ago?

A diffusion indicator is then calculated by adding the percentage share of positive responses to half the percentage of those respondents reporting no change. An indicator reading above 50 shows expansion, below 50 indicates contraction and a result of 50 means no change.

Data is collected through computer aided telephone interviews and around 200 companies are surveyed each month.



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Discovering trends in Emerging Markets

MNI's Emerging Markets Indicators explore attitudes, perspectives and confidence in Russia, India and China. Our data and monthly reports present an advance picture of the economic landscape as perceived by businesses and consumers.

Our indicators allow investors, economists, analysts, and companies to identify economic trends and make informed investment and business decisions. Our data moves markets.

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